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C O N F I D E N T I A L SECTION 01 OF 05 RANGOON 000102

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SUBJECT: CROUCHING TIGER, HIDDEN ECONOMY:
BURMA-CHINA ECONOMIC RELATIONS

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- [1](#)B. B. 09 RANGOON 20
- [1](#)C. C. 08 RANGOON 815
- [1](#)D. D. 10 RANGOON 30
- [1](#)E. E. 08 RANGOON 609
- [1](#)F. F. 09 RANGOON 644
- [1](#)G. G. 10 RANGOON 57

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Classified By: Political/Economic Officer Brian Andrews for Reasons
1.4 (b) & (d)

Summary

[1](#)1. (C) China's economic presence in Burma has increased dramatically over the last 10 years. The impact can be observed at all levels of Burma's economy: significant Chinese foreign direct investment (FDI), large PRC state-owned enterprises engaged in infrastructure and resource extraction projects, and an increase in Chinese national and ethnic Sino-Burmese owned small and medium enterprises (SMEs). While it is difficult to gain a full picture of the official economic relationship given limited reporting from both the Burmese and Chinese governments, China's presence in Burma's economy is readily apparent, particularly as one approaches the border areas, where the PRC renminbi, rather than the Burmese kyat, is the currency of choice. The GOB has been a ready recipient of Chinese FDI and the benefits of trade, but some senior generals are reportedly concerned about Chinese penetration of almost every economic sector and China's significant investment in Burma. In fact, many observers here believe the GOB is interested in better relations with the USG to buffer Chinese dominance. That may be true, at least in part. However, from Post's perspective, while China is clearly a preponderant economic player here, with the closest and most active regime relations, even Beijing's influence is limited on issues that strike at the senior generals' core political and personal interests. End summary.

Chinese Investment in Burma

[1](#)2. (C) With limited options due to Western economic

sanctions -- and with China's rapid growth -- the GOB has increasingly looked to China as its best source for FDI. During GOB Prime Minister Thein Sein's April 2009 visit to China, he encouraged additional Chinese investment in Burma. GOB statistics indicate that as of November 2009, China had invested USD 1.3 billion in Burma. China's Ministry of Commerce reports only USD 500 million FDI stock in Burma at the end of 2008. Both sources likely underreport China's investment; an International Crisis Group estimate places PRC FDI over USD 2 billion since 2003. Mining, electrical power, and oil and gas seem to be the leading sectors for Chinese FDI, with the GOB reporting PRC investments of USD 866 million, USD 281 million, and USD 124 million, respectively. (Note: Oil and gas investment will likely increase substantially with the construction of dual pipelines across Burma, as described below.) According to Winston Set Aung, a Burmese economist with access to GOB officials, Chinese firms import most of their labor for projects in Burma. While the percentage of Chinese labor varies depending on the industry and project, Chinese employees are almost always used for skilled labor, and often for manual labor.

Mining

¶3. (C) According to Glenn Ford, General Manager of Myanmar Ivanhoe Copper Co., Ltd (MICCL), China is the only country increasing its presence in the mining sector. In 2008, China's state-owned China Nonferrous Metal Mining Group Co. Ltd. reportedly purchased a 50 percent stake in the Tagaung Taung nickel project in Mandalay for USD 800 million. Ford stated that a subsidiary of China North Industries (NORINCO) also recently inked an agreement for a nickel mine in Chin State for an unknown price. There are reports that Chinese state-owned firms are involved in small mining projects for

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copper, lead, zinc, coal, and uranium. There appear to be limits, however, to Burma's willingness to agree to Chinese business terms. Since 2007, three Chinese firms have been engaged with MICCL and the GOB to purchase Ivanhoe's shares in the project, insisting on what Ford described as aggressive terms (Ref B). In May 2009, the GOB unilaterally ceased negotiations and announced plans to purchase Ivanhoe's shares itself, according to Ford.

Hydropower

¶4. (C) Burma suffers from acute energy shortages that affect daily life and national economic prospects. The GOB looks to foreign investors for investment in hydropower to address this need. According to the Ministry of Electric Power-1 (MEP-1), more than 15 Chinese companies have signed hydropower contracts with the GOB since 2005. The GOB is currently constructing 19 dams throughout the country in partnership with both local and foreign companies, and has signed MOUs for 20 additional projects. Although the Burmese government claims that all of the electricity generated by these dams will be used domestically, there is evidence the joint venture contracts signed with foreign companies, primarily from China and Thailand, include provisions to export the majority of electricity produced as compensation for investment. According to Embassy sources, Burma traditionally receives no more than 25 percent of power generated by new joint venture plants (Ref C).

¶5. (C) At least one new PRC hydropower project -- the joint Burma-China Myitsone Dam project in Kachin State -- has sparked local opposition, unusual in Burma's tightly controlled political environment. The dam, expected to displace 15,000 people, has faced local opposition on economic, environmental, and cultural grounds. Local grassroots groups enlisted the support of 50 pastors to collect the signatures of over 4,100 local residents who oppose the project. The petition was forwarded to the Chinese government, but was not submitted to the GOB (Ref D).

Oil and Gas

16. (C) China's oil and gas presence in Burma also appears on the rise. Nicolas Terraz, General Manager for TOTAL E&P Myanmar Yangon Branch, notes a significant increase in China's offshore oil and gas presence in the last several years, now constituting 30 to 40 percent of the total Burmese exploration work. According to Terraz, the Chinese firms utilize the latest technology and methods, and they are reclusive and do not interact with the other oil and gas firm employees operating in country. In Burma's opaque environment, it's difficult to determine whether Chinese firms secure exploration rights on competitive grounds, or the degree to which political favoritism and corruption play a role. Many presume politics and personal interest inevitably play a role in the GOB's selection process, however. In one case dating back to 2008, executives from Korean-owned Daewoo privately informed Post that the GOB pressured it to finalize a contract with China National Petroleum Corporation (CNPC), even though CNPC's gas price was lower than Daewoo wanted and what India offered to pay for the natural gas (Ref E).

17. (C) China's highest profile energy project in Burma is the planned construction of dual pipelines to transmit oil and gas from the Bay of Bengal to China's Yunnan Province. One of the pipelines will transmit natural gas drilled offshore in Burmese waters, while the other will deliver oil offloaded from tankers (e.g. from the Middle East). Discussions of the project -- reportedly costing over USD 2 billion USD -- are believed to have figured prominently in PRC Vice President Xi Jinping's December 2009 visit to Burma.

From Beijing's perspective, the project has the benefits of bringing energy directly into landlocked and underdeveloped Yunnan Province and avoiding the current oil transport route through the Strait of Malacca, which poses a potential choke point. Although there have been delays -- one rumor is that

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local Burmese military commanders insist that they dictate the pipeline's route through their territory, ostensibly to profit by having the pipeline transit land they own -- construction reportedly has broken ground.

Short End of the Stick?

18. (C) In deals stemming from Chinese FDI, particularly in the energy sector, it seems China receives a greater benefit than Burma, in terms of production output as well as employment of nationals. Economist Winston Set Aung speculated to us that the GOB is content to receive a marginal benefit since it is better than nothing and allows the generals to further consolidate their economic power. Further, the GOB may prefer to deal with the PRC because it is a reliable choice: offering some agreeable contract terms and unlikely to be influenced by human rights concerns.

Burma-China Trade Increasing

19. (SBU) Burma-China bilateral trade has been increasing steadily since the 1988 legalization of cross-border trade and the imposition of international sanctions on Burma for its human rights abuses. According to available GOB statistics, China is currently Burma's third largest trading partner after Thailand and Singapore. As with FDI figures, trade statistics vary depending on the source. Per the GOB's economic data, bilateral trade was USD 1.6 billion in 2008, up 7.8 percent from 2007. According to Chinese official statistics, however, bilateral trade was USD 2.6 billion in 2008, up 26.4 percent from 2007. China's exports to Burma in 2008 were USD 1.0 billion according to the GOB versus USD 2.0 billion according to China. Both GOB and China reported Burma's 2008 exports to China as USD 0.6 billion.

110. (C) The GOB mandates that imports not exceed exports, which may contribute to underreporting of imports from China. There is also considerable "unofficial trade" between Burma and China that is not reflected in any official statistics.

Winston Set Aung told us "unofficial trade" may be 10 to 20 times the official trade value, and involve legal and illegal goods. He noted that poor-quality Chinese consumer products are "the only choice" for many poor Burmese because of their lower price. For these reasons China may be Burma's largest trading partner, regardless of what the GOB reports.

¶11. (C) Local economists surmise that the ASEAN-China FTA is unlikely to have a significant impact on Burma-China trade. For example, Dr. Maung Maung Lay, Secretary General of the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI), noted there is not much overlap between products Burma produces and China exports, so Burmese products are unlikely to be affected. He noted that Chinese consumer goods could become less expensive, benefitting the Burmese people. He expects the ASEAN FTA, scheduled to come into effect for Burma in 2015, will have a more significant economic impact on the country as Burmese products will have to compete with similar imports from Burma's ASEAN neighbors.

China's Currency Policy and the Chiang Mai Initiative

¶12. (SBU) It is unclear to what extent, if any, China's currency policy impacts Burma's economy. Chinese consumer goods may be less expensive due to an undervalued renminbi, but in many areas Burmese consumer have few other choices. Some local economies on the PRC border utilize the renminbi and large business transactions with China are likely conducted in dollars or renminbi. The Chiang Mai Initiative will likely have limited impact on Burma, as domestic restrictions on foreigners using Burmese currency and international financial sanctions discourage speculation in the kyat. Burma pledged a surprisingly large USD 60 million to the foreign exchange reserve, although the GOB has a tendency of falling short on pledged financial commitments.

Growing Number of Chinese Businesses in Burma

¶13. (C) Dr. Maung Maung Lay told us there is a substantial

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increase in the number of Chinese-owned SMEs in Burma, despite laws against foreign business ownership. Embassy sources report that Chinese business people partner with Burmese or acquire fraudulent Burmese identification documents. According to our Drug Enforcement Attaché, Burma's leadership is aware of this phenomenon, but has not taken any action against it. Reportedly Burmese are facing economic displacement in Mandalay as wealthy Chinese purchase property in the city. Dr. Maung Maung Lay stated many Burmese in Mandalay have begun to learn Chinese in order to be successful in business.

Growing Concern in Nay Pyi Taw

¶14. (C) Thant Myint-U, a Burmese historian with some access to Burmese leadership, told us that the GOB previously viewed the ethnic border areas as serving as a buffer between Burma and the PRC, but with Chinese influence increasing in the border regions, as well as central areas such as Mandalay, this is no longer the case. Separately, a well-connected Burmese businessman informally conveyed to the Charge that the GOB is strongly interested in better relations with the USG mainly to buffer Chinese dominance (Ref F).

Public Perception that Chinese Hold Wealth in Burma

¶15. (C) The Burmese public generally believes most of the wealthy in Burma are Chinese, tending not to distinguish between Chinese nationals, Singaporeans, and ethnic Chinese Burmese citizens. It is often assumed that Chinese bring money into Burma through familial connections in Mainland China. However, we have not detected widespread anger towards Chinese, unlike past periods in Burma when broad resentment contributed to violent anti-Chinese riots in the late 1960s and 1970s. Winston Set Aung attributed the absence of economic resentment to a lack of education and

information among the Burmese public -- most Burmese, he averred, simply aren't aware of the scale of Chinese economic penetration. He referenced a recent public opinion poll that found Burmese had a favorable view of the economic impact of China and Thailand.

One Country, Two Policies

¶16. (C) Those here who follow Chinese activity believe the central government in Beijing and the leadership in Yunnan Province play separate, at times conflicting roles. At times, it appears the two parties have different priorities and operate relatively autonomously of each other. Beijing's concerns are geopolitical and economic - prioritizing stability on the border, national economic growth, and access to the Bay of Bengal. Beijing's primary interlocutor in Burma is the military regime in Nay Pyi Taw.

¶17. (C) Yunnan Province leadership reportedly prioritizes economic growth for the province as well as wealth generation for Yunnan Chinese operating and residing in Burma. Observers report Yunnan Province leadership's primary interlocutors are local governments and organized ethnic groups along the border. The United Wa State Army, for instance, claims China provides it with financial and military support, although it is unclear whether the support is from the central government, provincial government, or private sources (Ref G).

¶18. (C) According to Winston Set Aung, who maintains contacts with China's government-affiliated Center for Contemporary and International Relations (CICIR), CICIR's president phoned him in outrage following the August 2009 GOB attack on the Kokang border group which sent as many as 37,000 refugees into China. After the incident, per Winston Set Aung, Beijing declared that Burma would not be obligated to pay reparations for any damages to Chinese interests from the attack, but the Yunnan Provincial government petitioned Nay Pyi Taw for compensation for Chinese businesses in the Burma border region anyway.

The Quiet Embassy

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¶19. (C) The opaque nature of China's economic involvement in Burma is compounded by the reclusive nature of the PRC diplomatic presence here. The Chinese Embassy regularly rebuffs requests for meetings and information from the Rangoon-based diplomatic community. During the Kokang crisis the PRC Embassy refused to meet with the UN Resident Coordinator or WFP country director, who had staff in the conflict area, or other Missions. The Chinese Embassy also has yet to respond to requests to brief the diplomatic corp on PRC Vice President Xi Jinping's December 19-20, 2009, visit to Burma. Pakistan's Ambassador to Burma commented to us that his country's "all-weather" friendship with China apparently ends at the Burmese border, stating the Chinese Ambassador regularly does not return his phone calls. He noted the stand-off policy may be personality driven, as he had a good relationship with the previous PRC Ambassador.

Comment: A Complex Relationship

¶20. (C) Though exact facts and figures remain elusive, China's economic role in Burma clearly is large and expanding. Reportedly some of Burma's senior generals are concerned about Burma's increasing dependence on China, which could explain in part recent GOB overtures to improve relations with the U.S. Burma's leaders have nonetheless benefitted economically and politically by partnering with the Chinese, gaining investment, trade, and a key ally on the UN Security Council in exchange for granting PRC access to the country's markets and natural resources. We don't see the economic or political relationship changing markedly so long as the current crop of Burmese generals continues to rule. Even the political opposition, including Aung San Suu Kyi and the NLD Uncles, has made clear to us that they

realize their immense Chinese neighbor is a geo-political reality that must be managed and can not just be rebuffed or ignored.

¶21. (C) Still, China does face some risks. Beijing's influence over the regime has limits and is, in our view, not as great as outsiders sometimes suppose, particularly on issues affecting the senior generals' perceived core political and personal interests. The GOB's relations with ethnic minorities is a case in point: the regime wants to bring these groups to heel -- and has been willing in one case to use force to achieve that end -- while China has demonstrated a competing interest in stability and the protection of ethnic Chinese welfare. Further conflict in Burma's ethnic areas would create friction in the regime's relations with Beijing, and would also be bad for Chinese business. It's noteworthy in that regard that the Bay of Bengal-Yunan Province pipelines must transit several ethnic areas. A political transition in Burma -- even if falling short of the West's democratic ideal -- could also complicate China's pursuit of its interests here. The bilateral political relationships might change, and it is an open question whether a different Burmese government would honor current PRC pipeline and other agreements that could be seen as obsolete sweetheart deals.

¶22. (SBU) This cable has been coordinated with Embassy Beijing.

DINGER